

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 IO-14 /163 W

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FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 0450

INFO AMEMBASSY MANILA

UNCLAS SINGAPORE 1750

MANILA FOR SECRETARY SHULTZ

E.O. 11652: N/A

TAGS: ECON SN

SUBJECT: MINISTER OF FINANCE DISCUSSES INFLATION

SUMMARY: IN OPENING ADDRESS APRIL 13 TO SYMPOSIUM
ON INFLATION AND GROWTH SINGAPORE'S MINISTER OF FINANCE HON SUI
SEN DISCUSSED WORLD INFLATION AND THE INTERNATIONAL MONETARY
SYSTEM. HIS COMMENTS WERE THE MOST COMPLETE PUBLIC
AIRING OF GOS VIEWS TO DATE ON INFLATION AND
THE INTERNATIONAL MONETARY SYSTEM. THE
GOS VIEWS DISCIPLINE AS THE FUNDAMENTAL CORRECTIVE TO AN
INFLATION SPAWNED PRIMARILY BY LAX CREDIT CREATION, DEFICIT
FINANCING AND THE INADEQUACIES OF THE BRETTON WOODS SYSTEM.
END SUMMARY.

1. MINISTER OF FINANCE SAID THAT INFLATION WAS THREATEN NG
TO BECOM ENDEMIC BECAUSE THE ROOT CAUSES WERE NOT BEING
TACKLED. GOVERNMENTS WERE TRYING TO FIGHT INFLATION WITH
WAGES AND INCOMES' POLICIES, SUBSIDIES IN
BORROWINGS
TO OFFSET ENERGY AND RAW MATERIALS PRICE RISES. THESE
POLICIES WERE MERELY APPLYING NOSTRUMS FOR ITS SYMPTOMS AND
NOT TREATING THE MALADY ITSELF. HE SAID U.S. AND
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BRITISH EXPERIENCE WITH INCOMES POLICY SHOWED THAT THESE

TOOLS COULD WORK ONLY FOR VERY SHORT PERIODS.

2. THE WORLD'S PRESENT INFLATION WAS RESULT OF GENERAL RELAXATION OF FINANCIAL DISCIPLINE WHICH BEGAN AS EARLY AS THE 30'S WHEN GOLD STANDARD WAS ABANDONED. THE POST WAR NEW ECONOMICS USED DEFICIT FINANCING TO AVERT A POSTWAR DEPRESSION BUT MADE DEFICIT FINANCING AND LAX FINANCIAL DISCIPLINE STANDARD OPERATING PROCEDURE. WITH THE STRAIN ON U.S. ECONOMY OF VIETNAM WAR, DEFICIT FINANCING AND EASY CREDIT CAUSED SEVERE STRAINS WHICH COULD NO LONGER BE CONTAINED WITHIN UNITED STATES. THIS, COMBINED WITH EXTRAORDINARY EXPANSION OF U.S. DOLLAR LIABILITIES AND CREATION OF THE DOLLAR OVERHANG, WAS RESPONSIBLE FOR BOTH WORLD INFLATION AND COLLAPSE OF

INTERNATIONAL MONETARY SYSTEM. HE BLAMES U.S. FOR POLICY OF BENIGN NEGLECT, WHICH, COMBINED WITH ABOVE-MENTIONED PROBLEMS, LED TO COLLAPSE OF BRETTON WOODS SYSTEM AND EMERGENCE OF PRESENT SYSTEM OF FLUCTUATING EXCHANGE RATES. ON SUPPORTS "ANY PROPOSAL TO INCREASE ROLE OF GOLD IN MONETARY SYSTEM INCLUDING IF FEASIBLE RETURN TO GOLD EXCHANGE STANDARD" AS MEANS INCREASE DISCIPLINE BUT ADMITTED LITTLE ACCEPTANCE SUCH VIEWS INTERNATIONALLY. THE POLITICAL WILL TO IMPOSE HARSH SELF-DISCIPLINE IS LACKING. THE MINISTER CITED SINGAPORE'S SYSTEM OF 100 PERCENT-BACKED CURRENCY, ITS SUPPORT FOR INCREASED ROLE FOR GOLD AND REJECTION OF SDR'S AS EVIDENCE SINGAPORE'S WILLINGNESS TO ACCEPT DISCIPLINE. SINCE SDR'S LACK CONCRETE BACKING AND INTEREST RATE TOO LOW, THE SYSTEM HAS NO BUILT-IN CONSTRAINTS AND INEVITABLY WOULD BE TREATED TOO LIBERALLY. GOS NOW SUPPORTS THE LINK BETWEEN SDR AND DEVELOPMENT FINANCING, HOWEVER, BECAUSE SDR LDC LINKAGE WOULD CONSTRAIN DEVELOPED COUNTRIES FROM TOO LIBERAL SDR CREATION AND HIGHER INTEREST RATE FOR NEW SDRS WOULD IMPOSE RESTRAINT ON USERS. MINISTER EXPRESSED OPINION THAT UNTIL EVILS OF HYPER-INFLATION CREATED REVULSION AGAINST IT THERE WOULD NOT BE SUFFICIENT FORCE TO SWING GENERAL WORLD OPINION TOWARDS GREATER FINANCIAL DISCIPLINE AND THAT WORLD WAS GOING TO HAVE TO ACCEPT INFLATION AS FACT OF MODERN LIFE.

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3. IN MEANTIME, SINGAPORE WILL REMOVE AS MANY IMPORT DUTIES AS POSSIBLE, TAX LUXURIES MORE EXTENSIVELY AND ENCOURAGE THE CREATION OF MORE CONSUMER COOPERATIVES. HE BELIEVES PUBLIC EDUCATION AND BUYER RESISTANCE ARE IMPORTANT FACTORS IN FIGHTING INFLATION. CRONK

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